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The Elections: Oh What A Feeling!

The Liberal Democratic Party scored an overwhelming victory in Diet elections July 6, winning 300 of the key lower house's 512 seats and 72 of the 126 contested seats in the upper chamber. The Nakasone strategy of holding double elections clearly paid off, as voter turnout of over 70 percent re-established not simply a working majority for the LDP but uncontested dominance in the nation's parliament.

The election results surprised even LDP loyalists, who had projected gains of seven to twenty seats in the lower house from the party's pre-election position of 250 seats. Polls conducted shortly after the lower house was dissolved on June 2 suggested modest gains for the Liberal Democrats, but little confirmation was available until the final days of the campaign. (Major news organizations may have been gun-shy after their 1983 electoral predictions showed the LDP ahead of its competitors when in fact the party lost 36 seats in

the lower house.) A Yomiuri Shimbun survey published July 3 suggested that the LDP, which had been forced into a coalition with the New Liberal Club in 1983 to retain its control over the Diet, would easily win nearly 240 seats and could pick up an additional 23 to 43 if voter turnout was high and the nation's political mood favored the LDP on election day. Even this relatively optimistic forecast proved conservative, as voters swept the party to its strongest numerical position in the Diet in postwar history. After adopting conservative independents into its ranks, the LDP will enter the next session of the Diet, which must be convened within 40 days of the election, with 304 seats.

The LDP's lower house gains came primarily at the expense of the largest opposition party, the Japan Socialist Party, which lost 20-plus seats, dropping its total to 85. Although its performance was off from the 1983 election, Komeito (the Clean Government Party) remained the number-two opposition party. The Democratic Socialist Party lost almost one-third of its strength, while the Japan Communist Party's showing remained unchanged.

Election Results

	Lower House		Upper House	
	1983	1986	1983	1986
Liberal Democratic Party	250	300	68	72
Japan Socialist Party	112	85	22	20
Komeito	58	56	14	10
Democratic Socialist Party	38	26	6	5
Japan Communist Party	26	26	7	9
New Liberal Club	8	6	--	--
United Social Democratic Party	3	4	--	--
Independents/Others	16	9	9	10
Total	511	512	126	126

The election results suggest that the average voter has yet to feel the negative effects of the strengthened yen and subsequent downturn in the Japanese economy. Election issues -- such as they are in Japan -- focused primarily on "pocketbook" questions, including the likelihood of a tax increase (see article in this issue). Foreign policy played a minor role in the debate, except to the extent that it affected personal economic considerations. For example, Prime Minister Yasuhiro Nakasone explained the strong yen in terms of its economic benefits -- such as lower energy costs. And, appealing to Japanese patriotism, he argued that the yen-dollar realignment was an apt reflection of the strength of the Japanese economy internationally, a point on which voters should take pride. Other controversial subjects, such as possible Japanese participation in the Strategic Defense Initiative, received little attention at the grassroots level.

The elections clearly indicate that the major opposition groups in Japan have yet to offer a credible alternative to the programs pursued by the ruling LDP in the last three decades. In personal terms, the balloting was disastrous for JSP chairman Masashi Ishibashi, who has tried for two years to turn the party in a more moderate direction in recognition of the LDP's popularity and

the conservative nature of Japanese voters. Mr. Ishibashi may very well be forced to resign in the election's aftermath as a result of the JSP's lack-luster performance. This could exacerbate an already emotional split between the center and left wings of the party, further diluting its chances for the future.

The major factions within the LDP all gained seats, but significantly, the results for the Nakasone faction are mixed. Although accurate totals are not yet available, the Takeshita/Tanaka faction came out well ahead, pinning down 140 members of the two chambers, with the Nakasone, Suzuki/Miyazawa and Fukuda/Abe factions all having from 75 to 85 members. While the Nakasone faction gained the second-highest number of new members, it still ranks fourth in size. Unaligned members of the LDP will be pursued in the weeks to come in an effort to shore up the strength of individual factions.

A key consideration concerns the legacy of the Tanaka faction. This group remains partially intact because former prime minister Kakuei Tanaka -- its virtually bedridden leader --- was re-elected to his seat in the lower house. Although the faction remains nominally Mr. Tanaka's, two members -- LDP vice president Susumu Nikaido and Finance Minister Noboru Takeshita -- are locked in a struggle for the leadership post.

In this respect, the elections could have been better for the prime minister. A major element in the long-term Nakasone strategy has been to translate his popularity among voters into real factional influence. While the results probably enhanced his position within the LDP, particularly since he pursued double elections with such determination, they failed to produce an equally dramatic factional realignment.

LDP executive council chairman Kiichi Miyazawa may have suffered a setback as well, although the faction backing him fared well in the balloting. The former foreign minister resisted the call for elections until the last minute, grudgingly accepting reality only in the name of party unity. The overwhelming LDP victory would seem to have discredited his position, even though the party may push stimulative economic policies that he has long promoted.

Speculation on the relative strength of the remaining "New Leaders" -- Mr. Takeshita and Foreign Minister Shintaro Abe -- is rampant and confusing, but it appears that should a succession struggle ensue -- a likely possibilty despite Mr. Nakasone's repeated assurances to "abide by LDP rules" and step down as party president in October -- Mr. Takeshita would be the frontrunner at this point. For one thing, his financial support has reportedly been stronger than his rivals'. For another, Mr. Abe's supporters are said to prefer waiting out this race unless he is the undisputed leader of the pack. Mr. Abe is also the youngest contender, which gives him more opportunities in the future.

But Mr. Nakasone has emerged with election results that may have exceeded his wildest dreams, providing him with leverage and an argument that cannot be denied: Despite the current slowdown, the country's economic prospects have never been better and the LDP is in the strongest position in its 30-year history. Those are tough arguments to beat from a man the pundits declared dead almost three years ago.

Michael W. Chinworth

visits to the Yasukuni Shrine and emphasis on Japanese-style patriotism, the prime minister is likely to interpret the results as an endorsement of his vision of Japan's future and a further sign that by leading the LDP to an unprecedented position, he has assured his place in Japanese history.

Michael W. Chinworth

Japanese GNP Declines In 1986's First Quarter

Slumping exports in the first three months of 1986 drove Japan's gross national product down 0.5 percent in real terms from the previous three-month period (see Table). It was the first quarterly decline in the economy since 1975 when rising oil prices sparked a recession. The fall in GNP, which translated into a 2.1 percent decline in annual terms, intensified support for expansionary fiscal and monetary policies to boost the economy.

Despite the contraction, inflation-adjusted growth in fiscal 1985 (April 1, 1985-March 31, 1986) met the government's revised forecast of 4.2 percent, a modest decline from FY 1984's 5 percent growth rate. In nominal terms, Japan's GNP increased 5.9 percent to Y321,065 billion ($1.9 trillion at Y170=$1.00) in fiscal 1985, indicating continued low inflation.

The disappointing performance in the January-March quarter was primarily the result of an 18.2 percent fall (at an annual rate) in real exports, the third consecutive quarterly decline. The yen value of shipments was reduced as a result of the appreciation of the yen, which averaged Y187.9=$1.00 in 1986's first three months, a 26.1 percent rise from its September 1985 rate. In addition, the volume of exports was unchanged from its first quarter 1985 level. The decline in exports was partially offset by a slump in imports, which also fell for the third consecutive quarter.

Exporters, anticipating the continued drop in shipments abroad, curtailed capital spending in 1986's opening quarter. After three consecutive periods of double-digit increases, business investment rose only 1.4 percent at a real annual rate in the first three months of 1986. There were signs of strength, however, in other components of GNP. Consumer spending increased 2.7 percent -- the best showing in a year -- despite a deteriorating employment situation and modest wage increases. Moreover, residential construction rose 10.3 percent, its biggest quarterly increase since 1983. Excluding the drop in net exports, therefore, the economy expanded at an 1.3 percent annual pace in the first quarter.

For FY 1985 as a whole, inflation-adjusted exports rose 2.2 percent, a sharp decline from the previous fiscal year's 15.8 percent increase. But the external sector remained an important source of growth, as the rise in exports combined with a 1.7 percent decline in imports raised net exports 18.9 percent. Still, growth was more domestically oriented in fiscal 1985: external demand accounted for just 0.7 percentage point of the 4.2 percent growth rate, compared to 1.3 percentage point of FY 1984's 5 percent expansion.

Business investment increased by 12.6 percent in real terms in FY 1985, its second straight double-digit rise. But this impressive growth partially reflected the inclusion of capital spending by the newly privatized Nippon

Japan's Real Gross National Product at Constant (1980) Prices

(in billions of yen, seasonally adjusted, quarterly totals and rates of growth at annual rates)

	FY 1984	FY 1985	April-June 1985	July-September 1985	October-December 1985	January-March 1986
Gross National Product	Y281,102.2 (5.0%)	Y292,838.4 (4.2%)	Y289,437.3 (5.7%)	Y291,379.9 (2.7%)	Y295,529.9 (5.8%)	Y293,959.8 (-2.1%)
Personal Consumption Spending	159,100.7 (2.6%)	163,326.1 (2.7%)	161,900.4 (2.0%)	162,777.8 (2.2%)	163,661.5 (2.2%)	164,746.8 (2.7%)
Private Residential Construction	13,688.4 (0.4%)	14,197.8 (3.7%)	14,227.9 (9.3%)	13,881.0 (-9.4%)	14,188.1 (9.1%)	14,539.1 (10.3%)
Private Fixed Nonresidential Investment	47,342.6 (10.9%)	53,294.0 (12.6%)	51,114.2 (22.6%)	52,981.2 (15.4%)	54,303.4 (10.4%)	54,487.1 (1.4%)
Change in Business Inventories	1,839.1 (86.0%)	1,637.8 (-10.9%)	1,825.3 (-44.2%)	1,438.2 (-61.4%)	1,838.4 (167.0%)	1,471.9 (-58.9%)
Government Current Expenditures	26,654.9 (2.3%)	27,360.0 (2.6%)	27,081.5 (1.5%)	27,192.9 (1.7%)	27,369.9 (2.6%)	27,796.4 (6.4%)
Government Fixed Investment	22,159.9 (-3.0%)	20,641.0 (-6.9%)	19,954.0 (-27.4%)	20,495.6 (11.3%)	20,924.9 (8.6%)	20,794.1 (-2.5%)
Change in Government Inventories	159.1 (*)	307.2 (*)	77.6 (*)	515.6 (*)	604.4 (*)	17.5 (*)
Net External Sector	10,157.3 (49.2%)	12,074.5 (18.9%)	13,256.4 (103.7%)	12,097.6 (-30.6%)	12,639.3 (19.2%)	10,106.9 (-59.1%)
Exports of Goods and Services and Factor Income Received	53,609.8 (15.8%)	54,793.3 (2.2%)	57,176.9 (18.2%)	55,077.6 (-13.9%)	54,720.5 (-2.6%)	52,036.1 (-18.2%)
Imports of Goods and Services and Factor Income Paid	43,452.4 (10.0%)	42,718.8 (-1.7%)	43,920.5 (1.7%)	42,980.0 (-8.3%)	42,081.2 (-8.1%)	41,929.2 (-1.4%)

*Cannot be calculated or meaningless.

Source: Economic Planning Agency

Telegraph and Telephone Corp. and Japan Tobacco Inc. in the figures for the private sector; excluding investment by these organizations, the increase stood around 9 percent. At the same time, Tokyo's continuing fiscal austerity meant that the government again made a meager contribution to growth; current expenditures rose 2.6 percent in the April 1985-March 1986 period, while investment declined 6.9 percent.

Randall S. Jones

Japan's Slowing Economy Renews Calls For Expansionary Policies

The contraction in Japan's economy during the first three months of 1986 has raised doubts about the plausibility of the government's 4 percent real growth target for FY 1986 (April 1, 1986-March 31, 1987). Several research organizations have recently lowered their growth forecasts and business leaders have renewed their push for government policies to reflate the economy. But Prime Minister Yasuhiro Nakasone, while agreeing to consider a supplementary budget this fall, maintains there is no need to revise the official forecast.

Signs of continued weakness in the economy underscore the fact that the inflation-adjusted 2.1 percent decline in gross national product recorded in the first quarter of 1986 was not an aberration. The index of leading economic indicators, intended to predict future economic activity, fell sharply in April, and mining and industrial production contracted from year-earlier levels for the second straight month in May. Surveys by the research institutes of major securities companies predict an 18 percent to 24.4 percent decline in the profits of major corporations from year-earlier levels in the April-September 1986 period. Declining profits are reflected in the modest 4.5 percent wage increases won by labor this past spring, down from 5 percent last year. Thus far, summer bonuses have averaged only 1.4 percent more than 1985's.

Several research institutes have lowered their forecasts of real economic growth in the current fiscal year. Nikko Research Center sees growth falling to 2.5 percent, while the more optimistic Daiwa Securities Research Institute reduced its forecast from 3.9 percent to 3.4 percent. The latter forecast assumes another 0.5 percentage point cut in the official discount rate and a Y1.5 trillion ($8.8 billion at Y170=$1.00) supplementary budget this fall.

Business leaders, concerned by the many negative economic signals, have continued to push for stimulative policies, including a tax cut and increased government spending. Takashi Ishihara, chairman of the Japan Committee for Economic Development, called for tax changes to stimulate housing construction, which he noted has a big multiplier effect, boosting domestic demand three times the amount of the initial investment.

Although the disappointing first quarter GNP results have also increased pressure for another cut in the discount rate, Bank of Japan governor Satoshi Sumita continues to rule out such a move. The stimulative effect of the three cuts earlier this year are beginning to boost the economy, he recently said, adding that the central bank must be on guard against an increase in inflation led by fast-rising land prices. Mr. Sumita is optimistic that the economy will